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INFORMATION REPORT

COUNTRY Iran

SUBJECT Economic Situation

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1. True oil income is expected to start soon, but not immediately, and for the first year it will not be an important sum. The US Embassy insists much of it would have to go to pay for the ordinary budget now covered by US grants, leaving little the first year, something more the second, and possibly enough the third to pay for some of the many projects they have in mind under their Seven-Year Plan Administration--a sort of Works Progress Administration to implement the industrialization of the country based on Overseas Consultants, Inc. studies of some four years ago. So US grants may continue and so will Point Four which will put pressure on Iranians to pull their own load by using oil income for the ordinary budget and take the load off the US.
2. There is therefore inside the Iranian Government pressure on the one hand to start work on as many projects as possible--the people expect it after $2\frac{1}{2}$ years of fasting economically without oil income, the politicians must announce at least big projects, and implement some to keep in favor with the public. On the other hand are the wiser heads that say first, set up a sensible machinery to handle the allocation of this oil income, coordinate efforts and give priority ratings. There is in view organizing an Industrial Development Bank as Turkey recently organized successfully to help finance the larger projects. Also, of changing the law to permit legally to divert some of the oil income for the ordinary budget, now illegal but done through circumvention; this will then fix the amount above which income will go exclusively to Seven-Year Plan projects. Changes in the law to permit foreign capital to come in and leave and take out dividends are contemplated. Some of the eight Ministers are in favor of these prudent steps; behind the scenes, however, is always the temptation to spend money as fast as available from oil income or from loans or long credits advanced to Iran, so as to get their bit before their tenure of office ceases. At the moment [redacted] Aug 54, 25X1X6

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the talk is that the present Prime Minister's main job is finished--getting an oil accord--and a new one will soon be named by the Shah. But there is also the opposite force in favor of the present Prime Minister--if he has done a good job with the oil accord, why not continue him in office and get the country's economic condition bettered considerably. Hence the great amount of confusion and hesitancy in getting contracts signed.

3. The Government anticipates increased foreign exchange income and has gone ahead on that assumption by raising the value of the Rial from 86 to 82 to the dollar. That is, the dollar is worth less now than before 1 August 1954. Further appreciation of the rial is expected. It already has improved since the oil crisis time from 120 to 100, to 92, to 86, and now to 82 rials per dollar.

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25X1X6 Politically, the present government is stable. A tremendous celebration is on the way [REDACTED] to show solidarity for the Shah on the anniversary of the "public uprising" to throw Mossadeq out and support the present Prime Minister whom the Shah named to replace Mossadeq. Still, everyone talks of the continued pressure of East and West on Iran. The USSR is ever obnoxious. There is always the tremendous poverty of the many vs the wealth of the few in the ruling class. No telling when the USSR may exploit this situation and create the circumstances to produce lack of confidence among businessmen here; nor is there any certainty that oil income will be constant, nor for a known number of years.

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5. Right now [REDACTED], many projects held up for $2\frac{1}{2}$ years are being dusted off. Building is going on feverishly. Roads are needed, and many asphalt road contracts are in the mill; so are dams, etc. So with limited income in sight for at least three years, the Government officials are insisting on and getting long terms for paying for current purchases. This stretches the amount they can commit now while they are still in office. The UK has given long terms on almost US\$10 million of rails and cross-ties. France, through a French Government guarantee, has offered some US\$6 million in credits. Details of what to buy and for how long are being worked out. Germany, defeated and poor a few years ago, offers credit; just sold 500 buses on five-year terms. Of course, for US businessmen this strikes at our weakest spot. There are no bank facilities in the US to discount five-year paper except Export-Import Bank. But it deals only when approached by foreign government*financing. These are for the full amount previously expected by Iran in loans from Export-Import Bank. So the onus is on us to find ways and means to finance long-term paper.

(* Occasionally, US manufacturers may get consideration on their own application, but rarely without direct intervention of foreign government which must directly or indirectly guarantee loan.)

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